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JANUARY 9, 1989

A Cahners publication serving the total foodservice industry

RESTAURANTS & INSTITUTIONS

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R&I EXCLUSIVE

■ FOODSERVICE MARKET

ANNUAL FORECAST 1989

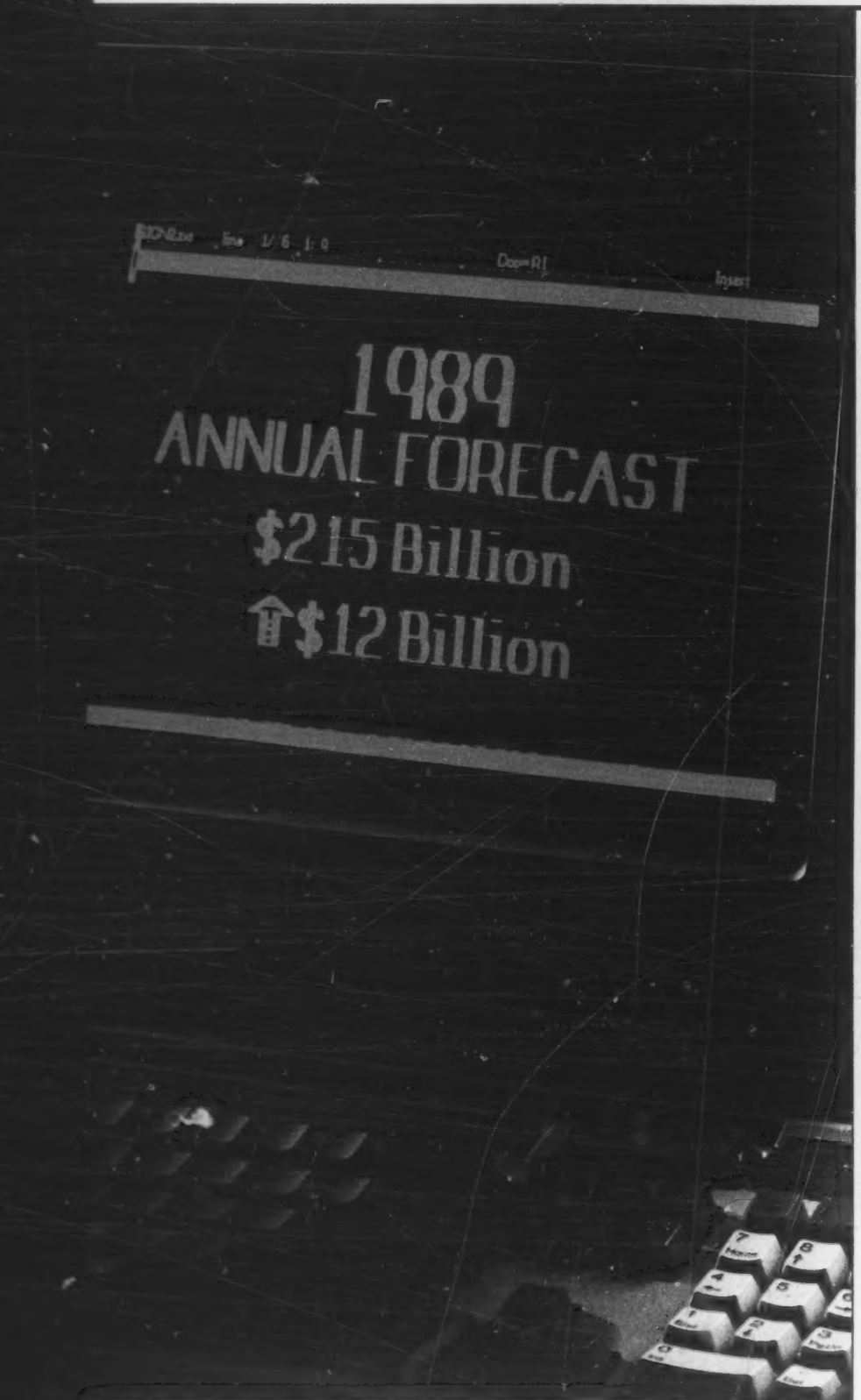
Foodservice industry will advance to $215 billion on real growth of 1.4%.

While the American economy waits anxiously for positive signals from a new administration in Washington, D.C., the foodservice industry moves forward steadily, as it has done for the last five years. If there is any doubt about the vitality of foodservice as a leading indicator of the economy, a quick look at its growth during this period will reassure not only operators but investors that it's a bellwether business. In 1985 the industry recorded total sales of $162 billion. For 1989 *Restaurants & Institutions* forecasts total sales of $215 billion, a gain of more than $50 billion.

During the volatile economic year since the crash of October 1988, foodservice continues to outperform the all-industry average. The 40th Forbes Report on American Industry shows the industry with a return on equity of 17% versus a median of 12.8%, sales growth of 10.5% versus 6.8% and earnings growth of 7.2% versus 5.3%.

Foodservice continues to lead other industries such as housing, automaking and electronics in total sales. It continues to gain a greater share of all food dollars spent in America, moving up another point to 45% versus 55% for retail food, a gain of 20 share points since 1960. The average family's weekly expenditure on food away from home is at an all-time high of $31.72. And 33% of consumers surveyed by *R&I* indicate they will eat out more frequently in 1989.

Real growth for 1989 will be 1.4% on a base of $203 billion, or



MACROECONOMIC INDICATORS

GNP: +2%

Disposable Income: +1.6%

Employment: +1.6%

Consumer Spending: +1.3%

Prime Rate: (10.5%)

All economic indicators are positive; prime should move up; deficits key to inflation.

FOODSERVICE INDICATORS

Employment in Eating and Drinking Places: +2.5%

CPI, Food away from Home: +4.8%

CPI, Food at Home: +5%

Women in Labor Force: (57.7%)

Average Weekly Dollars Spent on Food away from Home: $31.72 (+$.65 over 1987)

All indicators say the industry can consolidate recent gains and plan on modest expansion.

TOTAL FOODSERVICE INDUSTRY

1986 Sales: $178.6 billion
Real Growth: 2.9%
Nominal Growth: 6.8%

Sales: $192.2 billion
Real Growth: 3.7%
Nominal Growth: 7.7%

1988 Sales: $203.1 billion
Real Growth: 1.5%
Nominal Growth: 5.7%

1989 Sales: $215.7 billion
Real Growth: 1.4%
Nominal Growth: 6.2%

All figures for 1989 are forecast.

1989 ANNUAL FORECAST

"A restaurant is only as good as the worst service it gives to one customer."

BARTLETT'S FORECAST QUOTATIONS

■ **Quality Quest: "Now that we've enjoyed a decade of explosive creativity testing the limits of new concepts and new foods, the industry will spend the next few years concentrating on how well it can execute these ideas."**

■ **High Touch and High Tech: "As we search for answers to labor solutions, we will turn increasingly to new technologies to expedite service. At the same time we use machines more readily, we will focus even more on how well our people treat our customers."**

■ **One Industry under Foodservice: "We will continue to follow the path toward a more homogenous industry. This does not mean plain vanilla. It means that increased communication and the search for excellence in technique will see disparate segments using proven methods to deliver food to the consumer. If the consumer demands takeout in every segment, there will be takeout in every segment, and so on."**

■ **Great Battles of the Decade: 'Independents of all kinds, whether commercial or institutional, will face the fights of their lives as they contend with pressures from chains and contractors. Conversely, the "multiconcept" organizations with a number of independent restaurants under one umbrella will continue to grow and become a major force in shaping industry trends."**

$12.6 billion. To put this in perspective, industry growth during the coming year will be more than: A. Total U.S. sales for McDonald's ($10.6 billion), B. Combined sales for PepsiCo and Pillsbury foodservice ($12.5 billion), C. Combined sales for Wendy's, Hardee's and Domino's Pizza ($7.1 billion) and D. Total food and beverage sales for the entire hotel/motel segment ($7.7 billion).

This year's *R&I* forecast also demonstrates continued change within the total industry, specifically the changing relationship between commercial and institutional operations. In 1986 the commercial segment showed real growth of 3.6% versus 1.1% for institutional; in 1987 commercial had an even bigger gain of 4.3% versus 1.7% for institutional. But in the last two years the institutional side has grown faster and now the gap between the two has narrowed to projected growth of 1.3% for commercial versus 0.8% for institutional in 1989.

More importantly, this year's forecast breaks out the full-service and fast-food segments into subsegments, which more accurately reflect the complexity of the foodservice market. Full service comprises fine dining, casual/theme restaurants, cafeterias and family restaurants/coffee shops. Fast food is broken down into seven menu types—hamburger, sandwich, chicken, Mexican, sweets, seafood and pizza. We are also including projected real-growth rates and total sales.

From an analytical viewpoint, our individual segment reports show the impact of a changing economy, key industry issues and important demographics. At a recent conference on consumer demographics, experts identified two groups, aging baby boomers and the mature market (55 and over), as the most important. While people have grown tired of hearing about yuppies, the fact is that they still control a great amount of discretionary spending power, as do the over-55 crowd, and both spend heavily on food away from home. Therefore, marketing plans by any operator have to include strategies to reach these top targets.

Economically, we have rebounded from the shock of last October, when the Dow Jones Industrial Average plummeted to 1700. In early 1989, the Dow is staying in the 2050-2100 range and has been steady. Other more critical factors, such as the budget deficit and trade imbalance, have not been solved and are in the hands of President Bush and a Democrat-controlled Congress. Until these are dealt with, the dollar will likely suffer. Inflation could become a reality and, coupled with the drought and increased food costs, poses pricing problems.

In 1988 the leverage game accelerated dramatically. The corporate interest bill went to 24% of corporate cash flow. Debt rose to $207 billion, while equity fell to minus-$140 billion. As the year drew to a close, takeovers and buyouts reached fever pitch, causing concern and debate within the financial community. A number of major food and foodservice companies were involved in this activity, including Kraft, Pillsbury, RJR/Nabisco, Southland and TWA. Even McDonald's was not ruled out as a takeover target. Together with previous buying and selling deals, the increasing consolidation of distribution channels and growing acrimony between suppliers and distributors, the final picture is very uncertain and confusing. The industry should weather this activity well enough.

In spite of this ferment, restaurant industry investment experts believe the

Some fast-food chains cater to health-conscious customers.

Supermarket salad bars and delis are growing like gangbusters.

industry is going through what one terms "the transition from a 'shakeout' stage into a 'mature' stage." Four positive trends are cited: 1) Margins are beginning to increase after declining for some time, 2) Same-store sales continue to firm, 3) Cash flow after capital expenditures is shifting from negative to positive, and 4) The capacity to raise dividends is expected to increase in the next three years.

As for key industry issues, every operator faces the specter of government intervention, whether in the form of mandated benefits or restrictions that hamper efficiency. The industry will need to speak with one voice to win legislative battles on both the federal and state levels. Already struggling, many smaller independents could go out of business if new regulations are not phased in gradually.

How to attract people to work in the industry continues to vex everyone. Reaching into untapped labor pools, such as older workers and disabled people, and focusing on retention will be the best ways to solve the problem.

There will be more emphasis on refining internal operations in the interest of satisfying a more demanding customer. To achieve this goal, improved conditions for employees, better training, emphasis on management skills, and efficient use of product and systems will get priority treatment. Paying attention to the basics will be critical to succeeding.

After a period of great expansion in the 1970s, foodservice has learned to place how well above how much and how many, and this is why it will prosper in the coming year.

—Michael Bartlett

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THOUGHT LEADERS ON KEY INDUSTRY ISSUES

In an exclusive *R&I* Thought Leader Survey conducted for the 1989 Annual Forecast, industry leaders commented on key issues facing operators.

Of the 19 issues presented to our thought leaders, "Service issues and customer satisfaction" was chosen by 96% as the most important challenge. Significantly, two other human factor issues, "Management training and development" and "Worker availability/cost of labor," were the next major areas of concern.

After these were two other current problems, "Cost of food and supplies" and "Government regulation pertaining to your business."

Following are specific comments:

Competition

Scott Bergren, president, Round Table Pizza: "Business in our segment right now reflects the worst of the restaurant industry because of the ease of entry in our segment. The common denominator is overpenetration."

John Farquharson, president, ARA Services: "Competition keeps us going. That's where the challenge always comes from. I think it's healthy, and philosophically I place high importance on it. At times I wish some of the competitors weren't there, but I know deep down that's what keeps us sharp, keeps us moving in the right direction."

Stephen Elmont, president, Creative Gourmets: "I spend a lot of time figuring out how to stay ahead of the competition by three years. Also, in the creating of new products through market research, which we do ourselves."

Future Growth

Glenn Jeffrey, vice president, Executive Development, Pillsbury Restaurant Group: "We're entering a period of relatively slow growth and less discretionary income than we've had in the past. I think that's going to result in fewer dollars chasing even more restaurant options. It's going to be tough going for the restaurant industry for the foreseeable future."

Labor Crisis

Dorothy Van Egmond-Pannell, Fairfax County Schools: "The labor market is becoming tighter. The peak of the problem will be in about two years and will have a tremendous impact on us. I don't see relief until the mid-1990s. By that time, we'll have had to alter our operations to deal with the crunch and may not have the need for the labor that does come available."

Minimum Wage

Joseph Fassler, president & COO, Greyhound Food Management: "I pay more than minimum wage in most cases, and I base the wage on supply and demand and on increased productivity. Increasing the minimum wage without a corresponding increase in productivity is a tremendous mistake."

Management Innovation

Frank Havilin, F&B director, Disney World: "With our new hotel openings and new projects, we expect a 15%-20% increase in overall volume. Profits are advancing due to more intense management and new innovations in systems and organization."

Employee Motivation

Thomas Hensley, president, Druthers: "Most people see jobs in foodservice, particularly in fast food, as unglamorous and not career-oriented. There are some wonderful jobs and opportunities in our industry. We have done a terrible job of selling ourselves and the opportunities to the general public and getting them to understand how exciting it is."

Importance of Service

Charles Haskell, Lettuce Entertain You Enterprises, Inc.: "If you can make customers feel good—feel like you care about them—besides serving them a great meal, then it's going to be turned into perceived value. The restaurant is only as good as the worst service it gives to one customer."

Food Costs

Marcel Desaulniers, Trellis Restaurant: "We must stay on top of product costs to make sure that a price change is market-wide. The only way to do this is to shop around."

Marjorie Beasley, foodservice director, Bloomington (Ind.) Hospital: "We are making careful evaluations of the products to be sure we are getting the lowest price."

1989 ANNUAL FORECAST

Full service, fast food total $135 billion with 60% share.

R&I's 1989 Annual Forecast shows every segment but one making gains during the coming year. The single exception will be colleges and universities, with real growth of −0.4%, due primarily to flat enrollments and continuing pressure from fast-food chains, which draw off business.

Otherwise, 14 of 15 segments will move up. The largest jump will be registered by supermarket foodservice, which should grow at the rate of +8.2%. Supermarkets thus supplant convenience stores as the hottest single growth segment in foodservice and trends indicate that foodservice in retail food environments will continue as the leading growth area on a percentage basis well into the 1990s.

Convenience stores will gain +5.4%, and if the chains begin to commit heavily to more sophisticated foodservice operations, then they will begin to capture the market share many thought they would have two years ago. Presently c-stores own only a 1.1% share.

The next three spots in the overall segment ranking are held by institutional operations—employee feeding, schools and hospitals. In spite of challenges over the last five years, hospitals continue to grow, even if modestly (+0.2% in 1989). Employee feeding will grow about 1.0% on a base of $15.4 billion and schools will be up 1.2%. Thanks to the "echo boom" bringing more children into the systems, schools should see steady growth during the first part of the 1990s.

The nursing-home and life-care segments continue to grow rapidly as life expectancy increases and attitudes about aging lead to a variety of elder-care opportunities. Both contractors and hotels are aiming to capture some of this market.

Hotels themselves are stabilizing in occupancy counts and are using food and beverage as leverage to win more business. The contractors are expected to capture a larger share of institutional segments, such as employee feeding and hospitals.

COMMERCIAL SEGMENTS

FULL SERVICE

1989 sales: $75.4 billion
1989 beverage alcohol sales: $20.4 billion †
Real growth: 1%
Market share: 34.9%
Units: 187,700 †

FAST FOOD

1989 sales: $58.9 billion
1989 beverage alcohol sales: $686 million
Real growth: 2.2%
Market share: 27.3%
Units: 151,000

SUPERMARKETS

1989 sales: $2.8 billion
Real growth: 8.2%
Market share: 1.3%
Units: 15,000

RECREATION

1989 sales: $2.7 billion
1989 beverage alcohol sales: $386 million
Real growth: 1.8%
Market share: 1.3%
Units: 25,500

EMPLOYEE FEEDING

1989 sales: $15.5 billion
1989 beverage alcohol sales: $48 million
Real growth: 1%
Market share: 7.2%
Units: 16,000

SCHOOLS

1989 sales: $14.9 billion
Real growth: 1.2%
Market share: 6.9%
Units: 89,000

MILITARY

1989 sales: $5 billion
1989 beverage alcohol sales: $401 million
Real growth: 0.1%
Market share: 2.3%
Units: 3,320

NURSING HOMES & LIFE CARE

1989 sales: $4.5 billion
1989 beverage alcohol sales: $23 million
Real growth: 2.1%
Market share: 2.1%
Units: 25,650

1988 *Restaurants & Institutions*, a Cahners publication. † includes separate drinking places Source for unit figures: Technomic Inc.

LODGING

1989 sales: $8.5 billion
1989 beverage alcohol sales: $3.5 billion
Real growth: 0.5%
Market share: 3.9%
Units: 25,600

RETAIL

1989 sales: $2.8 billion
1989 beverage alcohol sales: $3 million
Real growth: 0.2%
Market share: 1.3%
Units: 29,000

C-STORES

1989 sales: $2.4 billion
Real growth: 5.4%
Market share: 1.1%
Units: 53,000

TOTAL COMMERCIAL

1989 sales: $153.5 billion
1989 beverage alcohol sales: $24.9 billion
Real growth: 1.6%
Market share: 71.6%
Units: 486,800

HOSPITALS

1989 sales: $10.4 billion
1989 beverage alcohol sales: $22 million
Real growth: 0.2%
Market share: 4.8%
Units: 6,985

COLLEGES & UNIVERSITIES

1989 sales: $7 billion
1989 beverage alcohol sales: $38 million
Real growth: 0.4%
Market share: 3.2%
Units: 3,350

TRANSPORTATION

1989 sales: $3 billion
1989 beverage alcohol sales: $493 million
Real growth: 1.5%
Market share: 1.4%
Units: 350

TOTAL INSTITUTIONAL

1989 sales: $62.2 billion
1989 beverage alcohol sales: $1.03 billion
Real growth: 0.8%
Market share: 28.4%
Units: 147,155

ABOUT *R&I*'S 1989 FORECAST

Restaurants & Institutions' Annual Market Forecast is compiled by the magazine's Bureau of Foodservice Research in conjunction with the Cahners Department of Economics.

The forecast is based on a variety of macroeconomic indicators, including consumer spending, employment and the prime rate, as well as foodservice-specific trends, such as the Consumer Price Index for food away from home and employment in eating and drinking places. Sales figures for 1988 have been revised from those published in *R&I*'s 1988 Forecast to reflect what actually occurred in the marketplace during the year. Therefore, real growth figures quoted in this issue are based on revised sales figures.

In the institutional segments, figures are calculated as commercial sales equivalents, based on food purchases. Food contractor sales are included in the segment where they occur. "Other" foodservice includes primarily fraternal clubs, prisons and recreational camps; the sales forecast for this category, which has a 1% market share, is 1.5%.

Commercial cafeterias and food sales from separate drinking places are included in the full-service segment.

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1989 ANNUAL FORECAST

FULL SERVICE

Full-service operators expect flat to moderate sales increases, with the bulk going to casual-upscale and midscale restaurants. Profits will rise for operators who can contain labor- and food-cost increases without drastic menu-price increases.

Real growth: 1%

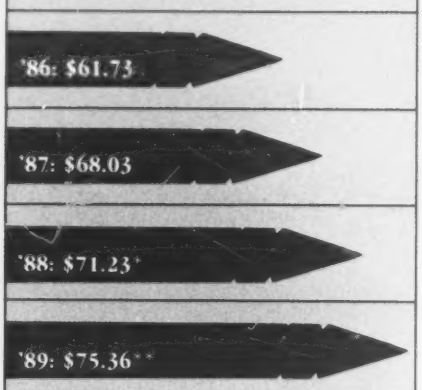
1989 sales: $75.4 billion

1989 beverage alcohol sales: $20.4 billion†

Market share: 34.9%

Units: 187,700 †

Combined food and non-alcoholic beverage sales in billions, 1986-89:



1988 *Restaurants & Institutions*, a Cahners publication.
*preliminary **forecast † includes separate drinking places

■ **FULL SERVICE**

1989 will find upscale and midscale restaurant operators handling customers with care.

This year and the foreseeable future will present full-service operators with three challenges: dealing with government legislation; hiring, training and retaining help; and working around drought-related and cyclical food-cost increases. These factors, however, do not weigh equally for fine-dining, casual/theme and family restaurant operators.

Fine dining ($50-plus check averages) will continue to be the group most affected by the 80% business-meal deduction. Operators report that the number of business customers has dropped and that those who are conducting business over lunch or dinner are spending less money on the meal. The decline is expected to continue, especially if the deduction drops to 50% this year.

Other proposed legislation, namely a minimum-wage increase, also would affect fine dining, though perhaps not as heavily as it would midscale restaurants, whose employees tend to be younger and more transient. "We don't have many problems with the work force," says André Soltner, chef-owner of New York's Lutèce. Soltner is alluding to fine-dining waiters who earn comfortable incomes through wages and tips, and who make careers out of waiting tables at prestigious restaurants. For instance, thanks to an 18% automatic service charge at Rattlesnake Club restaurants in Denver and Detroit, waiters average $12 an hour and busing staff $6 an hour, according to Jimmy Schmidt, chef and partner.

Higher wages will hit fine dining hardest in the back of the house and may result in reductions of the number of busing staff and dishwashers restaurants employ. The pool of people willing to work in starting-level occupations is already low, a situation caused in part by the amnesty program for immigrants.

Fewer support staffers also make it more difficult for fine-dining operators to offer the level of service that customers expect in expensive restaurants.

Plans to deal with higher food costs, both drought-related and cyclical, range from raising prices on non-listed specials to leaving prices alone and cutting spending elsewhere, such as in equipment and supplies purchases. Still other operators say the days of passing price increases to customers are gone. "There comes a point when you have to absorb much more than what you're able to pass on to the customer," says George Lang, owner of Café des Artistes, New York.

Uncertainty about general business conditions and consumer confidence add to the unpromising outlook for fine dining. Several operators say they will continue to feel the effect of 1987's stock-market crash. "People became more cautious about spending after firms closed and jobs were cut," says Schmidt. "They are making sure that events have a business purpose and are not just for entertainment." Since 100% deductibility still applies to functions staged in offices, many companies

Upscale restaurants such as the Pump Room benefit from tourism.

FULL-SERVICE SEGMENT BREAKDOWN

Segment	'89 real growth	'89 sales
Fine dining	0.3%	$ 8.0 billion
Casual/theme	1.4	32.8
Cafeterias	1.2	3.9
Family dining	0.7	30.6

have taken their client-entertainment business from restaurants and handed it to off-premises caterers.

Even the best restaurants in the country are not immune to consumer-spending cutbacks, which most operators expect will result in fewer visits to expensive restaurants. "Business is difficult now, and I don't see a great future," says Soltner. "I will be happy if business is level with 1988."

Fine dining's loss of customers will result in a gain for cafe and bistro restaurants (check averages between $20 and $25). A greater selection of small, reasonably priced appetizers and tasting dishes, more emphasis on wines by the glass and the relaxed atmosphere of bistros and cafes will attract fine-dining customers who want a comfortable, somewhat expensive meal, but who place a premium on price value.

Ralph Brennan of Mr. B's, New Orleans, predicts that customers will save fine dining for special events and visit bistros for regular meal occasions and spur-of-the-moment meals out. "People are moving to this level of dining," he says. "Business definitely will be up this year."

While Soltner and Schmidt are more concerned about service staff, Brennan says he is worried about finding talented cooks and chefs. "We don't get as many culinary grads down here," he notes, adding that he pays premium wages for kitchen help.

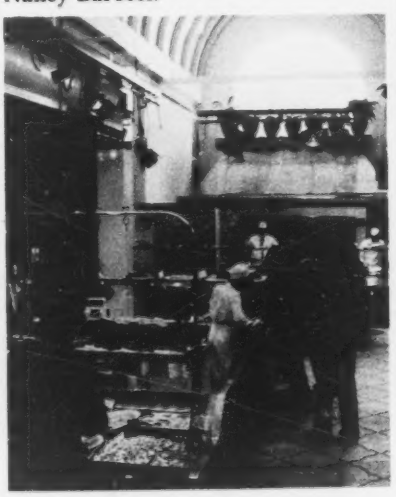
Nancy Barocci, owner of Convito Italiano, an upscale Italian cafe in Chicago, expects moderately good growth this year for her restaurant and very good growth for her catering service and Italian grocery store. Her biggest problem—aside from staffing—is successfully marketing all three facets of the business. "People who use our catering services don't know we have a restaurant, and grocery-store customers don't know we have a catering service," she explains.

Because so many of Convito's staples are imported from Italy, Barocci's food-costs concerns center around the strength of the dollar. But, she says, enough of the restaurant's menu items and the grocery store's ready-to-eat foods are made from American goods to partially offset the problem of a weak dollar. Being a specialty store also causes labor problems beyond those of most restaurateurs: Barocci likes to staff the retail section with people who can quickly learn a great deal about Italian food. "I just think customers expect more from our sales people," she says.

Executives at T.G.I. Friday's, the chain of midscale dinner houses ($12 to $20 check averages), have borrowed from both upscale bistros and Italian restaurants in an attempt to capture cafe-inclined customers. A new menu, introduced last June, features fewer burgers and more pasta and chicken entrees, more appetizers and greater selections of wines by the glass and imported beers. The menu, which boosted check averages and unit volumes, had a good effect on year-end figures, Friday's executives say.

Due to the new positioning, which also succeeds in placing Friday's one notch above Bennigan's and Houlihan's, the chain expects the sales momentum to continue this year. "Al-

Convito Italiano's multiple services pose a marketing challenge for owner Nancy Barocci.



FULL-SERVICE INFLUENCES FOR 1989

■ Labor and food costs, this year's biggest concerns for full-service operators, directly affect the bottom line. Reducing staff, raising non-listed menu prices, cutting spending for non-food items or absorbing costs are a few options for dealing with the problem.

■ Fine-dining traffic will continue to be slack, due to fewer business meals and the unwillingness of customers to spend a lot of money at one sitting.

■ Upscale cafes and mid-scale restaurants will garner some of fine dining's lost business. Check averages, however, may drop if customers reduce spending by skipping wine, dessert and appetizers.

■ Local economies continue to affect family dining, but this year, there's good news. Operators in Ohio, Kentucky and several mid-western states report that traffic counts are increasing. Oil Patch operators, however, continue to estimate flat sales.

1989 ANNUAL FORECAST

BURNING ISSUES

The following operators say they will pay the most attention to these issues this year:

Richard Rivera, T.G.I. Friday's:
Training
Marketing and advertising
Service
Growth strategies

Jimmy Schmidt, Rattlesnake Club:
Management training
Menu development
Expansion strategies
Information systems
Service

Nancy Barocci, Convito Italiano:
Management training
Menu development
Worker availability
Service

Mead Grady, Club Managers Association of America:
Training and hiring
Food costs
Labor costs
Government legislation
Development of healthful menu items

Ralph Brennan, Mr. B.'s:
Labor
Menu prices
Government legislation

though the segment is mature, there is room for those who perform," says Richard Rivera, president of the Dallas-based company.

Performance means providing good service, which Rivera says will be one of the company's biggest challenges this year. "We are not doing as good a job as we can," he says, adding that new training programs and more stringent hiring guidelines should help solve the problem.

Thad Eure, whose 42nd Street Oyster Bar in Fayetteville, N.C., competes in the midscale segment, agrees with Rivera's assessment of the midscale situation. "There are so many restaurants now that it will be harder to get that little bit of growth," Eure says. "Those who think they can let incompetent managers run their restaurants won't make it." Eure, in fact, is speaking for the entire full-service segment. His Angus Barn restaurant caters to fine-dining customers, and two Fat Daddy's are family restaurants.

Eure expects stable sales and perhaps slight increases for Fat Daddy's, even though competition at the family dining level is as intense as in the midscale segment. The difference lies in low prices. When customers want to cut back spending, they generally do not stop visiting restaurants with low check averages ($5 to $8).

But unlike fine-dining and midscale restaurants, most of which are located in urban centers and cities with heavy tourist traffic, family restaurants depend on healthy local economies for sales increases. For this reason Phil Hickey, president of Cooker Restaurant Corp., Nashville, Tenn., says he thinks the company's eight Cooker restaurants will do well next year. "The economies in our areas (Columbus, Ohio; Cleveland; Indianapolis; and Nashville) have seen steady growth," he explains.

Hickey also says he is not "overly concerned" about food-cost increases or the tight labor market. He and his three partners, however, are concerned about financial markets: They hope to make a public stock offering this year.

Executives at Wyatt Cafeterias hope that the company's exit from the public arena will help soothe financial woes. On Sept. 12, the company switched to an employee stock-ownership plan, under which employees literally have a vested interest in performing well.

And since most of Wyatt's cafeterias are in depressed areas such as Texas and Oklahoma, the restaurants must strive to distinguish themselves with top-quality food and service, says H.L. Packer, chairman of the Dallas-based company. But Packer says he thinks consumer confidence is steady, not shaky, and says he does not consider it a major factor affecting sales.

He also does not subscribe to the theory that vast menus immunize cafeteria operators from food-cost increases. "People expect to see certain items when they come here—for instance, roast beef," he says. "It is a mistake to try to find substitutes for those items." Wyatt has made small menu-price increases in the past year in order to keep pace with general operating costs, Packer says.

The operators interviewed for this story agree that above all, service must not suffer at the hands of higher food costs and higher labor costs. Most say they have raised hiring standards for service employees, are spending more time and money on training, and are trying to make employees feel good about their jobs in hopes that the customer will benefit from a happy staff. Successful restaurateurs call taking such measures professional. "The time of the real restaurant professional is back," says Thad Eure. "The days of the 90-day wonder in this business are over." ***—Lisa Bertagnoli***

Editor's note: Thad Eure died of cancer in November. He was 56 years old.

Waiters at T.G.I. Friday's participate in extensive training programs.

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1989 ANNUAL FORECAST

FAST FOOD

Real sales growth for fast-food restaurants will dip slightly below last year's figure, but the segment's share of the total foodservice market will be the biggest since *R&I* began its annual forecasts in 1976.

Real growth: 2.2%

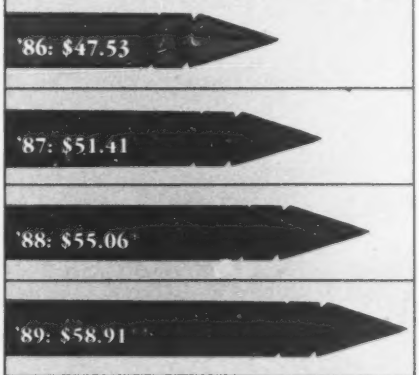
1989 sales: $58.9 billion

1989 beverage alcohol sales: $686 million

Market share: 27.3%

Units: 151,000

Combined food and non-alcoholic beverage sales in billions, 1986-89:



1988 *Restaurants & Institutions*, a Cahners publication.
*preliminary **forecast

■ **FAST FOOD**

With unit expansion on hold, chains hunker down to defend margins and market share.

Shades of 1988: The coming year will see fast food deferring unit growth for sales- and traffic-building. Squeezed by higher costs and a scarcity of both good sites and good workers, the quick-service superpowers will try to pick up extra market share. And that means a nervous year ahead for the rest of the fast-food industry.

"When elephants fight, ants die," says White Castle Advertising Vice President Chris Thomas. "We don't want to be a dead ant."

Real fast-food sales will reach $58.9 million in 1989, a 2.2% increase over last year's sales. That is a smaller jump than last year's, but it is still greater than the sales growth projected for any other foodservice category except supermarkets and convenience stores. The quick-service segment will garner 38.4% of the commercial foodservice market and 27.3% of all foodservice sales, up only two-tenths of a percentage point in each measure. But, again, that is a better market-share increase than any other segment except c-stores or supermarkets.

Unfortunately, this relatively flat performance comes at a time when a lot of other problems are converging on the fast-food industry. Higher food costs, scarce and expensive labor, the threat of burdensome legislation on wages and health benefits, and uncertainty about consumer spending are all pressuring profit margins in an industry that is still working through the overbuilding of the mid-'80s.

Of these, labor pains are causing the greatest concern because they threaten to become chronic. The maturing of the baby-boom and baby-bust generations has put American industry on the downward slope of the demographic roller coaster.

Of course, many fast-food chains are already paying a large premium over base pay to attract scarce workers. "There may be some small towns where we still pay minimum wage," says J. Patrick Ross, chairman and CEO of Rax Restaurants Inc. "But in most locations, we certainly aren't paying minimum anymore." Eventually, though, a minimum-wage increase will ratchet up most fast-food labor costs. So, while they prepare to lobby the 101st Congress on this and other labor issues, quick-service chains are emphasizing more careful recruitment, better training and longer retention of employees.

Rax's Ross thinks being forced to use scarce human resources more efficiently may actually be a good thing for fast-food chains. "We need to be more productive anyway," he says. "We haven't done much about automation or changing our methods of food production." New equipment will enhance productivity with simpler, less labor-intensive designs featuring computerized control systems.

Automation will also ease the service crunch. PepsiCo is now testing a high-speed automated drink dispenser linked to the keypad on the order-taker's computer, and selected Arby's units are using a conveyorized system to deliver orders to drive-thru customers. Following McDonald's lead last year, Hardee's has come up with its own double-sided burger cooker. And Wendy's and Arby's both are experimenting with credit-card payment systems that should speed point-of-sale transactions.

In this battle for market share, sheer size will give the top fast-food chains some big advantages when it comes to equipment research and development, advertising clout, or innovative site us-

Foreign expansion looks good next to the still-saturated domestic market.

FAST-FOOD SEGMENT BREAKDOWN

Segment	'89 real growth	'89 sales
Hamburger	2.0%	$27.8 billion
Pizza	3.5	11.2
Chicken	1.8	5.9
Sweets	0.6	5.7
Sandwich	2.9	3.9
Mexican	2.7	2.9
Seafood	1.2	1.5

age. One of the biggest of the big, PepsiCo, will probably build more All 'n' One units selling limited-menu versions of Kentucky Fried Chicken, Taco Bell and Pizza Hut from a single counter.

But many small concepts have a few natural advantages, too. Thomas relies on White Castle's "cult image" as a safety net for sales. "Our unique taste creates a lot of brand loyalty," he says.

Other chains reap special benefits from their unique situations. For example, Subway Sandwiches is sheltered from rising labor costs because its staff needs are so small. Richard Pilchen, marketing director for parent company Doctors Associates, says, "We depend on owner-operators, a lot of husband-and-wife teams that can cover a store with a staff of six. McDonald's needs 20 people per shift."

A breakout of sales projections by menu type shows that last year's growth categories will lead the pack again in 1989—but by nowhere near as much. For example, pizza will see a sales increase of 3.5%, a little more than half last year's jump. Pizza will account for 19% of the fast-food market this year, against 18.8% in 1988.

The pizza competitors are converging, copying each other's menu moves and marketing strategies. Bowing to the inevitability of off-premises consumption, volume leader Pizza Hut is transforming many units to "restaurant-based delivery" outlets and building new "Downtown Express" takeout counters. Both Domino's and Pizza Hut now offer two-for-one deals like Little Caesars; Godfather's promotes speedy delivery *à la* Domino's; and so many chains followed Pizza Hut into thick-crust pies that a wave of medium-crust, "hand-tossed" imitators is likely.

Unit growth here will be slow, according to Mike Raymond, Domino's group sales manager. He says discounting will continue at its present level. (About 40% of all pizza purchases last year involved some kind of rebate.) As for menu innovations, he predicts "a lot of 'in-and-out' promotional items, where chains try to generate news with different combinations of toppings, Mexican, Hawaiian and so on."

Burger sales will show some extra bounce in 1989 with a full 2% increase, after only 1.3% the previous year. In market share, however, hamburger chains will slip slightiy to 47.2% of all fast-food sales. The menu trend here will continue to be crossovers that combine the variety of a deli counter with fast food's speed and streamlined preparation. McDonald's and Burger King have already beat all but KFC at selling chicken; Popeyes International President Al Copeland predicts that McDonald's can do the same in pizza if it chooses to roll out McPizza this year. Meanwhile Wendy's SuperBar has overcome its early problems, and the company is now testing Oriental and pizza items.

Market saturation and a lack of good locations will keep a lid on unit expansion among burger chains. Many observers foresee a shakeout for the "burger baby" double drive-thrus that have sprouted in parking lots around the country. "Anyone who can flip a burger can open up a shop," Copeland says. He predicts the eventual survival of three or four chains that really do their job well—"just like when burger chains started in the '40s and '50s."

Chicken's future depends on two things: a drop in chicken prices and

Tight labor will hurt both operating costs and service levels.

EAST OF EATING

U.S. chains looking for growth in 1989 may decide to go where the customers are: Asia, home to 60% of the world's people. But Japan is no longer a wide-open market for American chains: Sixty of its 80 U.S. franchises are chasing the fast-food yen. Tokyo alone has 20 different hamburger chains, foreign and domestic. Stiff competition and the sky-high price of Tokyo real estate are sending would-be franchisors to other parts of Asia. A Hong Kong venture company owned by an American insurance firm hopes to franchise six American chains around the Pacific Rim, including Round Table Pizza and Mexican, roast beef and frozen yogurt concepts. The Beijing Kentucky Fried Chicken is a tremendous success. Later this year, by the grace of *glasnost*, Muscovites should taste their first Big Macs and may get Ben & Jerry's Ice Cream for dessert if talks progress. And Pizza Hut may not be far behind: Last year, a Pepsi spot became the first U.S. ad on Russian television.

1989 ANNUAL FORECAST

WHAT'S AHEAD IN '89

- **New emphasis on programs to retain hourly workers: Fast food will begin thinking of labor as human capital rather than just another expense.**
- **Quality of training: a new point of difference. Fast-food service levels are suffering just when customer loyalties are up for grabs.**
- **Innovative site use: PepsiCo's All 'n' One units, DQ Treat Centers, other pairings will open new markets at lower cost to the operator.**
- **Equipment advances to make workers more productive: PepsiCo's automatic drink dispenser, the spread of the double-sided griddle, and credit-card payment systems.**
- **Healthful alternatives: Subway markets turkey cold cuts and McDonald's prepares new packaged salads; food bars at Rax and Wendy's are judged a success.**
- **Day shifts: Dinner, now a much less-important meal occasion than lunch, will get new attention as chains try to build unit sales.**

the development of an unfried chicken product that can be produced in volume as easily as fried food. Kentucky Fried Chicken has had such an item in test for more than a year and is said to be prepared to roll it out. Other than that, fast-food chicken's best hope is just to trim costs to the bone and pray for rain next summer. Real sales should increase by 1.8% this year, down almost half a percentage point from 1988. Chicken's share of the fast-food market will stable at about 10%.

Sweets and dessert chains will be unable to match last year's strong growth. Real sales for the segment will only increase 0.6% this year; its share of all fast-food sales will decline slightly to 9.7%. Saturation in certain areas may be part of the explanation, accoording to Michael Sullivan, CEO of International Dairy Queen. "If you go to the West Coast, you've got yogurt shops on top of yogurt shops. We're test-marketing yogurt in Denver, and I hear through the grapevine that a lot of the yogurt shops there had a down year [in 1988.]" IDQ itself is being "conservative" about its own growth for next year, largely because last summer's sales dropped inexplicably.

Kenneth Hill, president and CEO of Kansas City-based T.J. Cinnamons, stresses the need for new dessert products to build per-store sales in a segment where much recent growth has come from expansion. "We're a start-up company at this point," he says. "Our sales volume has increased through new stores, not higher unit volumes."

Many sweets chains will continue to cut costs by "twinning" with other operations, a trend that does well when the match is right. Arby's signed a franchise agreement last year to bring the Flour Pot Cookie Co. into some of its stores. Both Dunkin' Donuts and IDQ are testing twin operations with Amoco gas stations. And IDQ will expand its Treat Center concept.

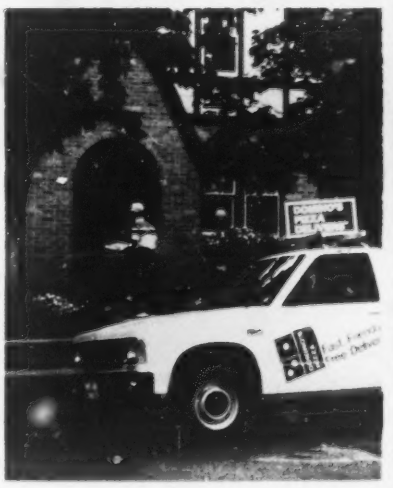
Sandwich chains will have the second-best growth rate in fast food, trailing only the pizza segment. Real sales will increase 2.9%, though market share will remain steady at 9.6%. The category divides into two parts—broad menu chains such as Rax and Arby's, and those like Subway and Blimpie offering strictly sandwiches and drinks. Growth projections are similarly divided. Rax CEO Ross sees sales growth for sandwich chains falling behind unit expansion.

But Pilchen of Doctors Associates disagrees. "We had our best chain sales ever [in October '88]—increases of 6% to 10% in average unit volumes. We're a moderately priced franchise offering a moderately priced product. We're sort of recession-proof."

Real sales in the Mexican menu category will rise 2.7%, about half last year's increase. Mexican's share of fast-food sales will rise a bit to 4.9%. Food-price trends have both helped and hurt the segment: Poultry costs were up because of the drought, slicing into margins on popular new chicken items like fajitas; but beef prices dropped as ranchers sold off more cattle. Tom Gilbert, franchising director for Taco Time International, says his company put through a 3.3% menu-price increase in May '88. He expects another of about the same size this year.

Seafood will experience somewhat better sales growth than last year—a 1.2% jump versus only 1% in 1988. Just the same, its market share will hold steady at about 2.5% of all fast-food sales. Introduction of new fish products and a new stability in the rising price of cod will help protect profits in the segment. Long John Silver's will continue its rollout of non-fried menu items, especially its new broiled fish dishes, and other chains will follow suit to capitalize on seafood's favorable health perception. *—Brian Quinton*

Once confined to pizza, off-premises dining will spread through fast food.



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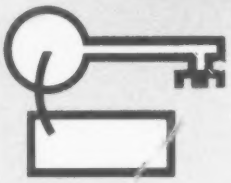


LODGING

***R&I* predicts steady occupancy rates of approximately 65% as construction is down and room-supply and lodging-demand curves begin to align. Hotel/motel construction in 1989 will be down 5.5% from 1982 levels.**

Real growth: 0.5%

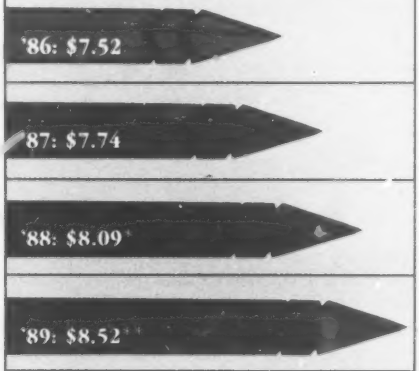
1989 sales: $8.5 billion

1989 beverage alcohol sales: $3.5 billion

Market share: 3.9%

Units: 25,600

Combined food and non-alcoholic beverage sales in billions, 1986-89:



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■ LODGING

Competition heats up in hotel food and beverage despite cool occupancy rates.

Hoteliers will rely on food and beverage operations to help boost revenues in a hotel market characterized by flat occupancy rates. Hilton International, for example, hopes to achieve a 10% increase in food and beverage business in 1989, according to consultant Fred Rufe. Both hotel guests and local residents will contribute to the expected gain.

Realizing how much business foodservice brings to a hotel, many all-suite hotels are starting up or adding to food and beverage facilities. When the all-suite hotel concept began taking off several years ago, about the only foodservice available at these properties was a free continental breakfast and a complimentary cocktail hour. Now, many are responding to demand for more extensive foodservice capabilities.

Some all-suite properties will cope by leasing out space to restaurants that are known well enough in the community to not only please guests, but do well with the locals. These restaurants may be relatively small, in keeping with the tendency of all-suites to keep public space to a minimum.

All of the Irving, Texas-based Embassy Suite hotels lease out their restaurants, says Doren Chisholm, corporate director of food and beverage. "We find it a very satisfactory arrangement. For example, our Burlingame, Calif., hotel has a Bobby McGee's that does over $5 million in business," she says.

Hoteliers that want to minimize their involvement in foodservice may consider linking up with franchisors, says Rich Conti, chairman of the restaurant consulting group for the accounting firm of Laventhol & Horwath, Chicago. The operator has overall control, but the franchisor takes care of details such as menu development and training personnel. This way, says Conti, "There is a full-time, high-level organization running the foodservice and the hotelier can run the hotel."

Some hotel operators will tailor their foodservice to suit guests' fast-paced lifestyles. Embassy Suites is test marketing a takeout breakfast program. Already offering guests a complimentary, cooked-to-order breakfast, some Embassy Suites provide packaging for guests who need to be somewhere else fast. Carryout items include eggs, biscuits, yogurt and orange juice. Chisholm anticipates that the program will be introduced nationally in 1989.

Not only are hoteliers feeding guests on the run, but many are looking at ways to better serve those who staying on the property. Single travelers, longtime users of room service, will be lured back to the hotel restaurant. Some restaurants will have areas sectioned off for single guests, away from families. Hoteliers hope that the addition of televisions and work stations will attract singles who want to escape their rooms.

With continued high turnover in labor, good training will be essential. Instilling a service attitude in all hotel staff will increase tips, making the workplace more attractive, says Tom Bloom, president of the California Culinary Academy and chairman of the American Hotel & Motel Association's food and beverage committee.

Foodservice will also target more senior citizens as employees. To attract this population segment, some hotels will offer the employee and spouse one free meal a day in the employee cafeteria.

—Rob Townsend

Diners enjoy a quiet repast in the Las Vegas Hilton.

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■ RETAIL

Self-service will keep costs down, while creative takeout sends revenues up.

Some retailers will abandon foodservice in '89; those who survive will strengthen their commitment to foodservice by making capital and space investments to bring their operations up to date.

John Lovelace, foodservice director of Dayton Hudson Department Store Co., a Minneapolis-based department store chain, says that "the opportunities for department store foodservice are the best they have been in 15 years, but you must be willing to adapt to consumer tastes. Plan for change and the results can be very positive."

One of Dayton's more successful concepts is The Sky Room, in which upscale sandwiches are served on real china in a relaxing atmosphere. Specialties include grilled swordfish sandwiches, lobster on a croissant and the "fresh carved" sandwich of the day. Dayton Hudson's menus in its sit-down restaurants give calorie counts for selected items.

In Chicago, Marshall Field's five-year renovation of its State Street store includes foodservice. Hinky Dink Kenna's is a theme restaurant targeted at the downtown business professional; a food court offers Chinese, Italian, Mexican and German-American foods and uses china instead of disposables; a full-line deli sells cheese, pâtés and salads; and a Viennese cafe offers espresso, cappuccino, gelato and pastries.

According to Rod Fensom, manager of creative marketing, building as much destination business as possible will greatly enhance the success of a retail foodservice operation. He believes that in the future the business will become "a little more focused, more intense. Those who remain in retail foodservice will do a better job. There will be new concepts and operations aimed at satisfying the customer."

Jerry Rozak, vice president of foodservice, believes being timely and convenient are the secrets to success in retail foodservice: "Customers are a lot more aware of price and service levels." He also believes that takeout food will offer many opportunities to retailers in the coming year.

"Although retailing is soft, foodservice for McCrory in 1988 was very good," says Robert Laird, vice president of foodservice, McCrory Department Stores, York, Pa. The renovation of 45-plus units improved his company's foodservice business. McCrory's plans for '89 include becoming a franchisee of a nationally recognized chain.

Laird also sees excellent potential in self-service. One of McCrory's self-service operations, J.J.'s, features a Mexican Fiesta Bar, soup and expanded salad bar, fresh-dough pizza and hot dogs with a free fixings bar (chili, cheese and an assortment of other toppings). A food court scheduled to open in a Los Angeles McCrory's in the first quarter of 1989 will feature a number of self-service operations: Mexican, pizza, chicken, burgers and ice cream. McCrory's may also set up convenient food centers with microwaveable, high-quality items that customers can prepare themselves.

Laird predicts modest but measurable growth for retail in 1989: "As long as the demand is there, you will have retailers who feel that food is extremely important."

—Kathleen Marshall

McCrory's J.J.'s features self-service Mexican and salad bars.

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RETAIL

Retailers will be offering more take-away and self-service operations in an effort to attract consumers with accelerated life styles. Upscale foods and decor will attract a more affluent clientele.–

Real growth: 0.2%

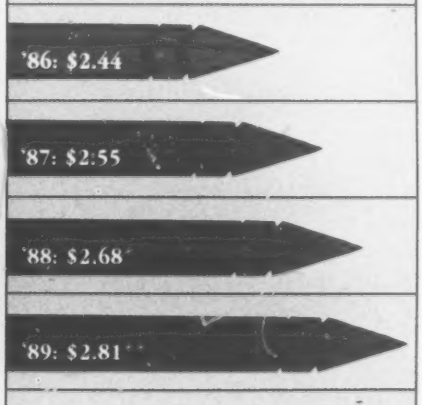
1989 sales: $2.8 billion

1989 beverage alcohol sales: $3 million

Market share: 1.3%

Units: 29,000

Combined food and non-alcoholic beverage sales in billions, 1986-89:



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1989 ANNUAL FORECAST

SUPERMARKETS

Foodservice in supermarkets will be a major growth area in 1989. Ripple effects will include more fresh offerings by food manufacturers, more sophisticated labor and an increase in marketing store identity through signature recipes and packaging.

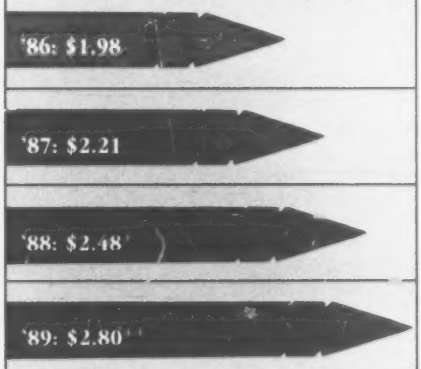
Real growth: 8.2%

1989 sales: $2.8 billion

Market share: 1.3%

Units: 15,000

Combined food and non-alcoholic beverage sales in billions, 1986-89:



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■ SUPERMARKETS

Consumers demand variety in prepared foods; limitless possibilities await the creative.

Food courts in supermarkets are one example of the growth in foodservice.

"To say that there is a lot of excitement about the prepared-food business in the supermarket industry is an understatement," says Howard Solganik, president of Solganik and Associates consulting firm. About 95% of supermarkets with service delis average well over $2,000 a week in prepared-food sales. An average deli can do a very healthy business in cold cuts, chicken and potato salad alone, says Solganik. "It's staggering to think what's going to happen as they start putting their resources toward prepared foods."

In 1989 supermarkets will continue to add foodservice to their traditional role of food distribution with more frequency and in a variety of formats. When the new Roche Bros. superstore opened in Rochester, N.Y., last July, a food court was part of the plan. It has a separate entrance, three cash registers and a cafe area with tables for dining.

The first counter features stations for the carvery, pizzeria, desserts, rotisserie and the "Piece Meal" section, which has entrees, casseroles, vegetables and soups for a quick gourmet meal to go. Further down the line is the self-service cheese case, service deli, bakery area and prepared desserts for take-home. After seven months, the court accounts for approximately 12% of total store sales, according to David Murphy, food court manager.

"In the near future, supermarket foodservice may account for up to 30% of total store sales," says Solganik, "The concept is in its infancy." That infancy could indeed be short-lived; of the 18,800 supermarkets with some kind of service deli, 85% offer prepared foods such as pasta salads, ribs, lasagna, chicken, soups and casseroles.

Already, some supermarkets are taking prepared food a step further by offering in-house restaurants. Larry's Market Cafe & Deli units in Seattle are renowned for their Northwest cuisine and do a brisk local trade at lunch and dinner. Lund's in Minneapolis cross-merchandises by offering the most popular service deli items on the menu of its new bistro cafe.

Despite these examples, most restaurants in supermarkets have not fared well. That may be changing, but many operators think that table service would tax the already tough labor situation, that an empty table is occupying space that could be used to more profitable ends and that customers still have expectations about dining-out that supermarkets cannot fill.

Regardless of the extent to which supermarkets enter the foodservice arena—from simple service deli/bakery to food court to restaurant—customer demand will be strong enough to support the increased labor costs such endeavors entail, according to industry spokespersons. The high value placed by customers on supermarket foodservice will allow for increases in price, especially as that foodservice becomes more sophisticated.

—Beth Gotschall

As foods offered become more sophisticated, so does decor and packaging.

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1989 ANNUAL FORECAST

RECREATION

Box-office receipts and spectator-sport revenues are on the rise, following a slight decline. Motion-picture admissions also are expected to climb. Some theme parks expect double-digit increases in food and beverage sales.

Real growth: 1.8%

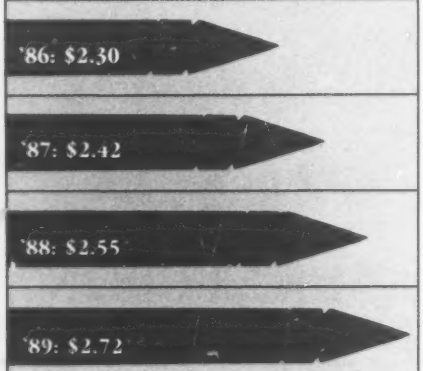
1989 sales: $2.7 billion

1989 beverage alcohol sales: $386 million

Market share: 1.3%

Units: 25,500

Combined food and non-alcoholic beverage sales in billions, 1986-89:



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■ **RECREATION**

Attendance will be up, but severe labor shortfall will plague leisure-time industry.

Last year's stock market crash and the tax-reform bill have had a negative effect on attendance at sports stadiums, movie houses and theme parks. But the recreation market, with its escapist image and history of resiliency, is expected to fare better than other industry segments.

One explanation is the anemic state of the U.S. dollar overseas, which has encouraged more Americans to plan vacations closer to home. The less costly option of domestic travel has given a boost to theme and national park attendance. At the local level, more frequent outings to sporting events and movie houses will be good news for stadium and theater owners.

Theme parks also are beefing up yearly attendance by opening new attractions during the off season. Six Flags Magic Mountain in Valencia, Calif., debuted its $1 million stomach cruncher "Condor" ride just before Thanksgiving. Universal Studios unveiled the $13 million "Earthquake: The Big One" two weeks after. And Disneyland's new Splash Mountain flume ride will start making waves in early 1989. Each attraction could boost the respective park's head count by 10%-25%.

Like the rest of the industry, the recreation segment worries about the prospect of a minimum-wage rise. Exceptions are companies such as Walt Disney Co., which already pay well above the proposed increases. However, minimum wage takes a back seat to an even more pressing problem, one to which even Disney is not immune; that is, the labor shortage at both the hourly and full-time management levels. Despite offers of impressive wage and benefit incentives, particularly by the more prestigious theme parks, it has become increasingly difficult to recruit the numbers of people needed to serve the recreation segment.

Walt Disney World has initiated several offensives to combat the labor problem. The company has launched a series of internship programs, particularly in the culinary area, and recently completed a large apartment complex to house candidates. The provision for housing has been a persuasive factor in convincing candidates to move to Florida. Apprentices in the two-year culinary apprenticeship program receive cross-training in various Disney facilities; the program is accredited by the National Culinary Federation.

The response, while still not enough to support the rapidly expanding Walt Disney World-EPCOT Center resort complex, has been overwhelming, according to Frank Heavlin, food and beverage director for the resort division. To help fill the available job slots, the company is advertising nationwide for hourly employees and putting together a relocation package to attract potential candidates.

In addition, Disney is exploring alternatives for assisting employees with children. Already Disney World has contracted with KinderCare for child care, an action that should result in happier employees and less labor turnover. *—Barbara Magan Dawson*

The weak dollar is sending more Americans to theme parks and stadiums here at home.

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C-STORES

According to the NACS Industry Report, there will be 110,000 c-store locations by the year 2000 and foodservice products will make up 20% of their in-store merchandise. C-stores will continue to make their mark on the industry.

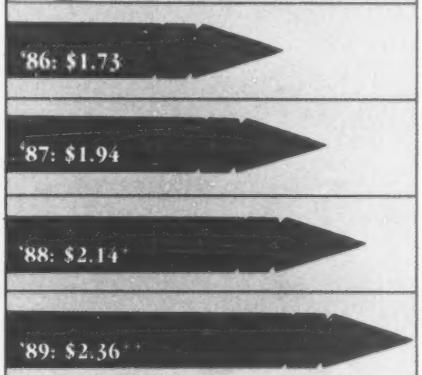
Real growth: 5.4%

1989 sales: $2.36 billion

Market share: 1.1%

Units: 53,000

Combined food and non-alcoholic beverage sales in billions, 1986-89:



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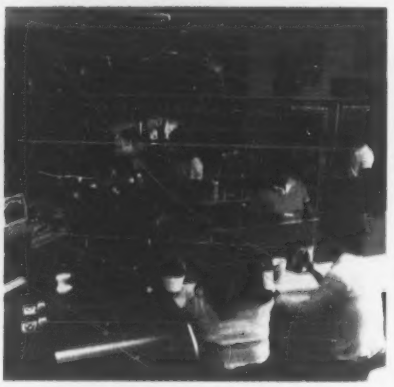
■ C-STORES

Deals with restaurant chains and branded products will carry this segment forward.



C-stores, including this Circle K, are competing with fast-food operations.

As part of a financial restructuring, Southland Corp. sold about 2,000 7-Eleven stores last year, giving the c-store chains that bought the units a chance to play the foodservice game in prime locations. The lowering of Southland's profile also will make a key competitor, Circle K, far more visible in the market.

C-stores that make a serious commitment to foodservice will invest in additional equipment, space, training, advertising and extended hours next year. Their menu offerings are likely to include freshly made salads; refrigerated, ready-to-eat entrees; fried chicken; ethnic and specialty foods; and items baked in the store.

Pasta and pizza are other new frontiers for c-stores to conquer. Already some chains make these in their commissary, to be reheated at the store level. Increasingly, c-stores will become more ambitious, installing pizza ovens so that the pies can be prepared and cooked on site. Wawa Inc. will be testing pasta and pizza in the future; in 10%-15% of Circle K units, seating is available so that customers can eat their pizza on the spot. Another option is to link up with an established pizza chain, as Circle K is doing in tests with Pizza Inn.

The Circle K experiment is one of many collaborative arrangements between c-store and restaurant chains. In the past, some of these have fallen through because the two companies butted heads on policies and procedures; one pair reportedly split up because they disagreed about which floor cleaning solution could be used. Some observers think the current crop of c-store/restaurant partnerships has a better chance of survival because they are more carefully thought out.

Rather than trying to combine all aspects of two fully formed companies, they are tailoring the foodservice to fit the c-store's customers and needs. Amoco Oil Corp.'s c-stores, for example, are serving barbecue, breakfast sandwiches and self-serve ice cream provided by International Dairy Queen, while the burgers are supplied by Burger King.

Branded foodservice products are another c-store trend. Stocking the pastry case with products from Dunkin' Donuts or identifying the hot dog by brand are ways to build consumer confidence.

C-stores might achieve their foodservice ends more effectively if they devoted more time and money to researching their market, believes Teri Richman, vice president of government relations for the National Association of Convenience Stores: "The convenience store industry's strength is also its weakness. C-stores have the ability to change quickly, but they often do so before researching consumer demands."

A few highlights:

- Because 76% of c-stores are open 24 hours a day, more employees are calling for increased staffing at night to protect their safety.
- Eighty percent offer some sort of prepared food.
- Pizza, baked goods and fried chicken are three top-selling foods in c-stores.
- More foodservice items means less space for retail items; as still smaller stores are built, chains will have to find the right balance.
- Management must creatively merchandise snack items as companions to a rented video movie.

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■ CATERING

The business is there, but caterers must cope with an increase in competition.

Demand for catering services is up, on both the business-entertaining and social fronts, but a more price-conscious customer and increased competition may cut into caterers' profits.

John Byrne, project director of Ridgewell's in Washington, D.C., believes the corporate market will be especially strong. "Although we do some very visible functions, such as events at the White House and State Department," says Byrne, "about 80% of our business is corporate and we're finding that the percentage is growing. We've set up a separate group that does nothing but corporate catering."

"The business is there," confirms Michael Roman, head of the National Institute for Off Premise Catering in Chicago. He explains that corporations are now more likely to organize events, "in pursuit of business," that are held on premises because they can deduct 100% of the cost, compared to 80% for functions held elsewhere (also, tax laws exclude "lavish and extravagant expenditures.")

Even for the on-premises events, companies are watching expenses carefully. "The market crash has made people more careful about spending—now parties really have a business purpose other than entertainment," says Carlyn Berghoff, Carlyn Berghoff Catering, Chicago.

Roman also notes that marriage is back in fashion, leading to more lavish weddings and other social events beneficial to caterers. Dolly Strenko, a hospital foodservice administrator who operates a catering business in partnership with a Cleveland church, says that the facility already is booked for weddings every Saturday in 1989.

Despite this bright outlook in terms of customer counts, Roman says many caterers will not have a good year. "You've got to remember that catering is a bidding business and the temptation is to get the job at all costs. Too many caterers take the wrong jobs at the wrong price," Roman says. He also notes a tendency among caterers to become so involved with the ordering, preparation and serving of food that they pay scant attention to paperwork and perhaps forget to make tax deposits. "That money can add up quickly," comments Roman.

Stiff competition also adds to the riskiness of operating a catering business. On the one hand, licensed caterers are threatened by thousands of unlicensed caterers who may undercut their prices. On the other, they are competing with well-established contract and restaurant companies.

ARA Services Inc., for example, recently purchased Greenwood Catering in Denver. Large chains, too, are beginning to join the ranks of restaurants that do catering on the side. Notably, the McDonald's with the highest gross income has been catering for years.

Hospitals, colleges and universities, and employee-feeding operations also see catering as an alternate source of revenue. And they may market more aggressively than the catering companies. If you were driving down the streets of Cleveland during the month of December and turned on the radio, you might well have heard a disc jockey calling out the winner of free food and beverage for an office party for up to 100 people. The catering business for this event, as it turns out, is owned and operated by Southwest General Hospital.

—Susie Stephenson and Toni Lydecker

The "feel" of a catered event is as important as the food served.

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WHAT'S AHEAD IN '89

■ An increased emphasis on presentation and creating the right ambiance. One caterer comments that guests often hold their taste preferences secondary to a dish's stylish appeal and proper presentation, and says, "The 'feel' is often more important than the food. That's where we differentiate ourselves."

■ Takeout as a sideline. Families earning two incomes like to reward themselves with sliced tenderloin and the like, and caterers will compete for this business.

■ More fish and pork entrees. Customers will be more sophisticated, more willing to try something new.

■ A bigger advertising push. In addition to media spots, it will include fliers on doorsteps, direct mail and personal calls on business executives.

■ A labor shortage. It will be more intense for such jobs as dishwasher.

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EMPLOYEE FEEDING

Reductions in subsidies and the growing labor shortage are taxing the creative resources of foodservice contractors and independents. The pressure is on to break even or to operate facilities at a small profit.

Real growth: 1%

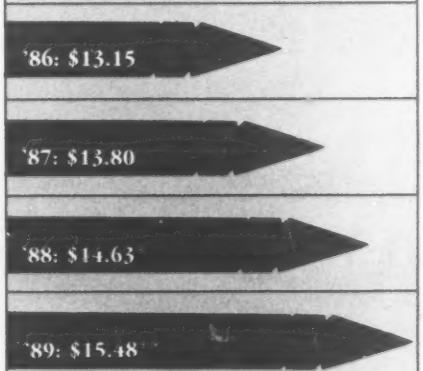
1989 sales: $15.5 billion

1989 beverage alcohol sales: $48 million

Market share: 7.2%

Units: 16,000

Combined food and non-alcoholic beverage sales in billions, 1986-89:



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■ EMPLOYEE FEEDING

Reduced subsidies and labor shortages force employee foodservice to test creative juices.

Companies that once regarded foodservice as a benefit now view it as a convenient, on-premises support service, according to Phillip Cooke, executive director of the Society for Foodservice Management. Consequently, the idea of subsidizing foodservice is changing radically, as all eyes turn to the bottom line. Most corporations are willing to cover rent, occupancy and maintenance costs of a foodservice facility. But the pressure is on employee foodservice to break even or show a small profit on an operational basis.

Employee foodservice has become a financial scapegoat as a result of corporate restructuring taking place coast to coast. The mergers, takeovers, and leveraged buy outs of the past few years have forced cash-poor companies to reevaluate all benefit programs, of which foodservice is a major component.

Neil Reyer, vice president of Restaurant and Travel Management at Chemical Bank in New York, sees the change in attitude as positive. "Getting out of the subsidy business will free up employee foodservice to compete with outside foodservice operations," he says. "Pricing is not the issue. Chances are, I can put out a greater variety of product with better quality."

Employee foodservice that can deliver high-quality items, along with the appeal of convenience, should find that customers are willing to pay a fair price. Menu prices in business and industry are edging closer to street prices, as food and labor costs continue to exact their toll on the bottom line.

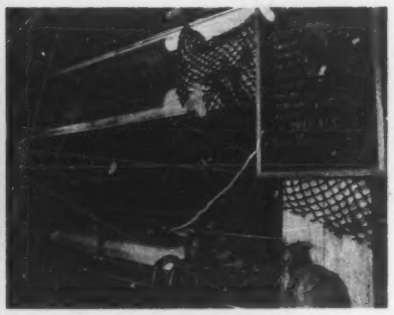
As in other segments, labor supply will be a serious problem for employee foodservice. Lease Plimpton, liaison for the Massachusetts Institute of Technology Lincoln Laboratory, a defense research facility on Hanscom Air Force Base, in Lexington, Mass., says, "Labor in New England is down to about 3%, of which 2% is unemployable. I would like to see a serious commitment to encouraging and training the developmentally handicapped.

The labor problem is not nearly so acute at companies such as Motorola, which runs its own foodservice operation. Motorola can offer a better benefits package than other firms and recently restructured its foodservice salary levels to become a little more competitive with the rest of the market.

However, says Rudy Zwicklbauer, regional manager of food and vending services, "We don't want to go overboard because the company also is looking to us to reduce subsidy levels. The fact that our workers are corporate employees gives us a little more hiring leverage because we can offer benefits. But one of the drawbacks we run into is our reputation. Our public image is that of an electronics firm. People just don't think of us as a foodservice employment opportunity. We definitely need to do some recruiting to make people aware of that."

The labor shortage will spark innovations in products, equipment and systems. Foodservice planning will undergo dramatic alterations. The trend will be toward less square footage and scaled-down facilities engineered to run as smoothly and efficiently as possible. The future calls for more flexible layout and design so that dining rooms can be used for meetings, mini conferences and private functions. Equip-

Catering and delivery generate revenue for employee foodservice.



The Chemical Bank's food operations compete with nearby restaurants.

ment will be smaller, more mobile and more versatile.

Because of the labor required, operations will place heavier reliance on products that require minimal preparation time. Convenience products, quick chill, *sous vide* all are getting a second audition. Operators will be willing to pay more for products, when those costs are offset by labor savings.

Creative pricing also can help. When Canteen introduced a "by-the-ounce" concept 10 years ago the industry shrugged. Today, Chemical Bank, Motorola and others are promoting self-service hot food, salad, sandwich and vegetable bars. Charging by the ounce lowers both food and labor costs, says Reyer. Reyer established a 20 cents-per-ounce set price for all food items, from entrees to fruits.

He also introduced a Natural Balance Selection promotion that features high fiber, health-oriented foods in 10 different categories, including breakfast, soups, fruits, salads, snacks and entrees. A stay-fit kit provides nutritional, diet and excercise information.

As business and industry grows more sophisticated and competitive, the role of the liaison becomes more pivotal. "The job is becoming much more professionalized," says Plimpton. "The Society for Foodservice Management has done a great deal to enhance the image of the liaison. Companies are far more selective in choosing a contractor. The liaison is becoming a more powerful and influential voice in the decision-making process.

Plimpton, who serves food to 3,000 physicists and engineers and their support staff, wants to redesign her kitchen for nutritional cooking. "Diet is so important to good health and controlling disease," she says, "and employees in sedentary office jobs need extra help in this area."

Anything and everything that creates incremental income is being tested in employee feeding. Creative foodservice liaisons are experimenting with video rentals, jewelry shops, card shops and even dry-cleaning outlets installed in or next to cafeterias.

Takeout is also in test, but product variety is limited by the operation's hours. Most cafeterias close by 3 p.m. to cut down on labor and overhead. This restricts take-home goods to those that do not require immediate refrigeration. A few operations are staying open later, however, and offering full-scale dinners for employees to take home.

Hours also make catering difficult to pull off as a profit center because banks and office buildings generally close down after 6 p.m. and on weekends. Keeping them open during those hours is a costly enterprise. Air-conditioning and heating systems have to be turned on. Manpower is needed for building maintenance and security, as well as for the kitchen. Nonetheless, Reyer thinks that catering could be potentially lucrative for many operations. "It depends on the flexibility of the company and its willingness to risk the financial commitment," he says. "We do contract catering at Chemical Bank in the evenings, but it is expensive. Still, I think we'll see a lot of experimentation in that area."

Delivery, another option, is practical in a factory complex where the cafeteria may be a long walk from the assembly line. But it also makes sense in an office environment where people may be in the middle of a meeting and do not want to lose their momentum. "We now provide working lunches that are delivered to conference rooms so people don't have to interrupt their meetings," says Zwicklbauer.

In other cases, foodservice directors invite executives to handle their business in the cafeteria during off hours. As one operator observes, "People are getting more creative when it comes to converting the space for use as a meeting room, a cooking school or class, or even as a seating area for seminars. Some are even setting up business meetings with food so that the cafeteria becomes, in effect, a mini conference center." ***—Barbara Magan Dawson***

WHAT'S AHEAD FOR '89

- **Downsizing of facilities.**
- **More flexible designs that allow kitchens and dining areas to be utilized for other profitable ventures during off hours.**
- **Greater emphasis on healthful foods and nutrition education for employees.**
- **A bigger push toward take-home items; operations will test the appeal of full meals.**
- **Increased interest in by-the-ounce self-service, *sous vide* and quick-chill methods to help compensate for labor shortages.**
- **Heavy emphasis on revenue enhancers such as on-premises videotape rental stores and dry-cleaning operations, in addition to take-home and catering activities.**

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SCHOOLS

The availability of commodities will probably have the greatest impact of all economic factors facing school foodservice programs in 1989. But finding labor is running a close second.

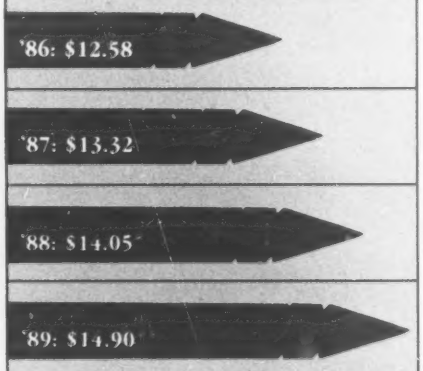
Real growth: 1.2%

1989 sales: $14.9 billion

Market share: 6.9%

Units: 89,000

Combined food and non-alcoholic beverage sales in billions, 1986-89:



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■ SCHOOLS

Commodity availability and new administration are causes for concern.

"Boomettes"—children of baby boomers, who are just now entering school systems in significant numbers—should create a continued, yet small rise in school foodservice growth in 1989.

But these increases will not be felt nationwide. Rather, the increases will be in suburbs surrounding high-tech or other cities attractive to yuppies.

Regardless of whether a district is flush with students or not, all school foodservice directors are looking for ways to expand their customer base.

"We must identify what will attract those students who come to school but aren't eating with us," says Jane Boehrer, foodservice director for the San Diego public schools. "For example, how do we get the student who goes off campus to smoke to eat with us instead?" she questions.

Balancing budgets, never an easy task in a program funded in large measure by the government, will become even more difficult in the near future. The availability of commodities is no longer a sure thing—and commodities have an enormous impact on the bottom line of school foodservice budgets. For instance, the San Diego schools use $2 million to $3 million in market value of commodities in their program each year.

Many school foodservice directors are also waging internal wars for students' disposable income. As dollars become tighter for all school programs, teachers, students and other groups such as bands are starting to sell food to raise funds for programs and trips. All these activities cut into available foodservice dollars.

These are some of the challenges school foodservice directors expect to face next year.

■ The labor pool will be so tight that employees who recruit their friends or relatives will receive incentives.

■ Operations will be simplified and entry-level employees will receive more training.

■ Increased automation will help cut down on labor costs. Foodservice directors also expect to package more goods and to make greater use of disposables.

■ Employees will receive better raises, and benefit packages may be extended to part-time employees. "Once employees are trained, they tend to want to work more hours," explains one director. "We can't always offer them full-time jobs, so we have to provide them with some other reason to stay."

■ Directors expect new management-information systems to enable departmental personnel to be more responsive to student trends and desires in shorter periods of time.

■ Many foodservice directors will not be surprised if they face increased competition from fast-food restaurants.

■ As the public demands better education for their children, school administrators are gaining the freedom to make a variety of decisions about their particular schools. Foodservice directors wonder about the impact of the push toward greater autonomy within individual schools on their programs.

■ Increased communication with administrators and the community will also be emphasized.

—Susie Stephenson

Schools will compete with fast-food vendors for this customer's business.

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HOSPITALS

The stranglehold on hospital foodservice is still leaving bruises. Although census levels have bottomed out, rises in revenue will come from non-patient meals and services—which are increasing in diversity.

Real growth: 0.2%

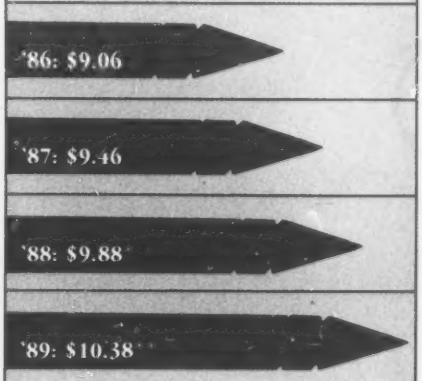
1989 sales: $10.4 billion

1989 beverage alcohol sales: $22 million

Market share: 4.8%

Units: 6,985

Combined food and non-alcoholic beverage sales in billions, 1986-89:



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■ HOSPITALS

Health-care foodservice still feeling DRG impact; directors seek new revenue sources.

"A bunch of hospital foodservice people feel if they don't part their hair just right, they might get fired." That's one health-care foodservice director's analysis of what is in the offing in the year ahead. Says another, "The foodservice directors who encourage entrepreneurial projects—they'll be the success stories."

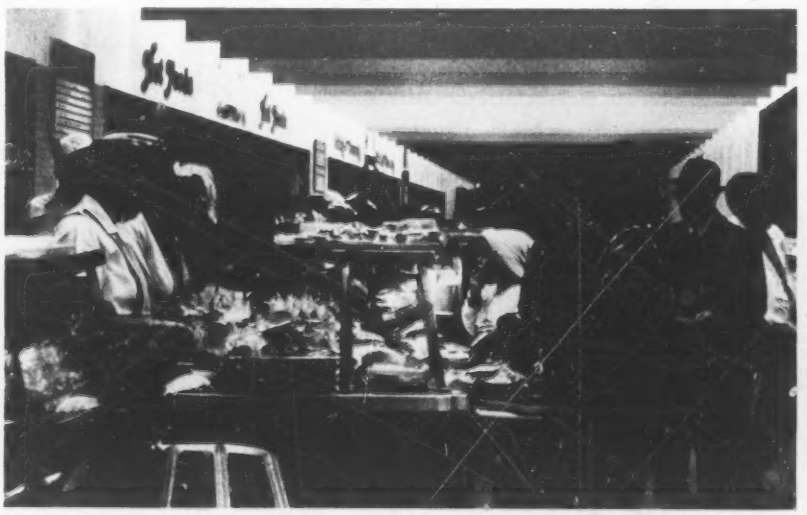
The mood in the health-care segment, obviously, continues to be tense. The impact of DRGs is still being felt. (The term refers to diagnosis-related groups, where the price paid for a hospital service within group categories is fixed in advance, regardless of the procedures performed and length of stay.) And everyone is curious as to what new health-care legislation will be enacted once Bush becomes president. Although the drop in patient census seems to have leveled off, hospitals are still closing their doors. To prevent insolvency in still-viable operations, foodservice directors and dietitians remain under a great deal of pressure to increase department revenue.

To eke out every available dollar (and not just foodservice dollars) that employees, patients and even members of local communities are willing to spend, directors and dietitians are implementing a broad array of foodservice programs and marketing them intensely. They are luring neighbors into their cafeterias by offering discounts on meals during down times, starting weight-loss programs, offering to wrap any menu items for a visitor to take out, opening deli operations similar to ones located in neighborhood delicatessens. They are operating their own vending machines, offering valet service for dining-room customers, opening convenience stores and renting or selling videos. They are selling frozen meals, both standard and modified, for employees and visitors to take home.

What is critical to the success of foodservice departments in these trying times are two factors: providing services and knowing exactly what customers want.

Ruby Puckett, foodservice director at Shands Teaching Hospital and Clinic in Gainesville, Fla., is willing to endure the hassles of a massive renovation because it will almost double the size of the foodservice operation, enabling her to offer more services to customers. When completed, the new op-

Attractive decors bring in dining-room customers from the community.



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eration will be 50,000 square feet. There will be a private dining area plus a food-court area with fast-food operations such as pizza, hamburgers, a bakery and an ice cream shop.

But something else is going on here, as well: Newly formed marketing departments also are trying to differentiate their hospitals from the all the rest. Today, ads abound on television, in newspaper supplements, on the billboards lining the sides of major highways and in the bowels of subway stations. They promote convenience, particular services (such as substance-abuse programs) and, occasionally, foodservice.

If all this were not enough to turn the hairs on hospital foodservice directors' heads gray, they are being asked to provide these myriad services with less labor. And there's the real crunch.

To combat that situation, many foodservice directors and dietitians expect more sharing of services. Indiana's Bloomington Hospital has been part of a purchasing group for years. Many other hospitals are following suit. But sharing has gone much further than buying frozen green beans and paper napkins in bulk.

A number of hospitals in the Midwest, including Bloomington, have bought expensive pieces of specialized medical equipment and big vans in which to haul them around to different locations. This type of arrangement allows patients to stay in Bloomington rather than going off-site or to another city to have procedures requiring this equipment—which, obviously, helps a hospital's patient census.

A number of independent hospital foodservice directors and dietitians also are concerned about the inroads being made by contract companies. Says one director, "Contract companies have a wealth of knowledge and experience. They've tried a lot of ideas, have worked out the bugs and are ready to implement these programs. That can be very attractive to an administrator."

Other changes expected in 1989 include:

- More styling of dining areas to resemble restaurants, thereby increasing their allure.
- Meal discounts to employees of nearby corporations and institutions.
- Much more emphasis on patient relations—hotlines for complaints, greeters at hospital entrances, streamlined admittance procedures.
- Increases in the numbers of satellite health-care operations in areas such as shopping centers, so that services are more accessible to a greater number of potential customers.

Yet despite all the changes that have occurred in health care, at least one foodservice director is quick to remember the importance of care. "If you don't have the human touch, all the technology won't matter," says Puckett. "It's not always going to be technology that saves your life; it's going to be the caring of the nurses' aide or someone else along the way that gave you that little extra desire to live."

— *S.S.*

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COLLEGES & UNIVERSITIES

In 1989, college and university foodservice income will rise little. Although the customers are there—and willing to spend—foodservice is having income sources cut and is being asked to contribute money to other campus departments.

Real growth: 0.4%

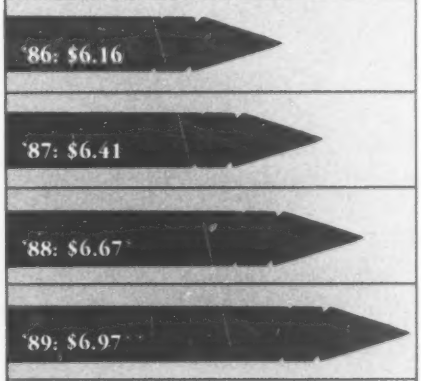
1989 sales: $7 billion

1989 beverage alcohol sales: $38 million

Market share: 3.2%

Units: 3,350

Combined food and non-alcoholic beverage sales in billions, 1986-89:



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■ **COLLEGES & UNIVERSITIES**

Rising costs of college education continue to put pressure on foodservice departments.

For the college market, the crunch is on. Although the steep decline in student enrollments projected for the late 1980s and early 1990s failed to materialize, college and universities face many problems. The cost of a degree is escalating at a rate much higher than inflation. In an attempt to limit the tuition rise, foodservice departments—many of which used to operate independently of other university departments—are being asked to contribute to their schools' general funds.

Many foodservice departments also must deal with the consequences of years of deferred maintenance on buildings that, in many instances, are as much as 60 years old. Couple this situation with the rise in construction costs and the high cost of money and it becomes clear why college and university foodservice departments expect 1989 to be a "challenge."

Often, it seems, customers have suffered most from the consequences of these financial pressures. "To keep costs down, we've become so mechanized and automatic and efficient in serving people fast that we've lost the friendly smile that should go along," comments Larry Barrett, director of housing and foodservice for the University of California-San Diego. "We want our employees to serve customers fast and get them out. They've learned the lesson too well."

As a result, many college and university foodservice departments are increasing customer-relations training.

What other subjects will cause concern with the leaders of this market segment this year?

■ A changing customer base makes foodservice directors stretch their imaginations. The average age of students is now 24 years. Many more students are foreign and their food expectations are vastly different than those of the American-bred 17- and 18-year-olds of years past. Not only must a greater variety of foods be offered, according to Barrett, "but you don't necessary act, talk and do to people of other cultures as you would to those of your own."

■ College and university foodservice directors and dietitians are nervous about the outcome of lawsuits challenging the legality of unrelated business income. At Cornell University in Ithaca, N.Y., the law department has told the foodservice department to stop all off-campus catering until its legality has been established. "We just don't have as much control over our abilities to generate additional income," says Foodservice Director Peg Lacey.

■ As with almost every foodservice segment, labor problems are also affecting the college market. Although most full-time positions remain filled (colleges usually have excellent benefit packages), student employees are scarce this year. Len Hodgson at the University of Connecticut in Storrs has seen his student labor hours drop from about 60,000 to about 40,000.

■ Management will also pay more attention to the needs of employees. Lacey conducted a survey of Cornell employees and discovered that they wanted a "fun" banquet rather than one where they were given certificates of merit. She orchestrated such a dinner and said it improved morale dramatically. Lacey is also studying the feasibility of subsidizing child-care services for foodservice employees.

■ There will be more emphasis on cleanliness and plate presentation; perceived value is very important. "Of key importance is environment and service," comments Barrett. "That's where customer satisfaction all starts."

—*S.S.*

Ambiance is critical on campuses.

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MILITARY

The military is concentrating on creative presentations of nutritious menu items. Further implementation of computer systems is creating greater efficiencies. Clubs are monitoring financial performance closely since they are losing appropriated funds.

Real growth: 0.1%

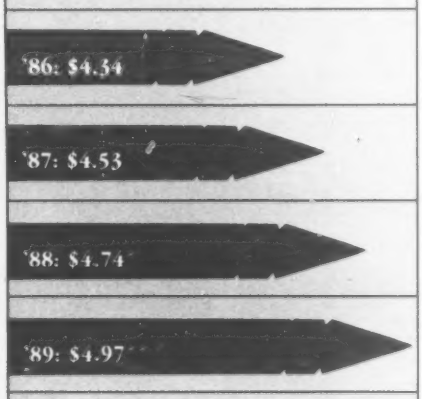
1989 sales: $5 billion

1989 beverage alcohol sales: $401 million

Market share: 2.3%

Units: 3,320

Combined food and non-alcoholic beverage sales in billions, 1986-89:



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■ MILITARY

Customer satisfaction, automation and nutrition continue to be top priorities.

Armed forces foodservice operations plan to run lean and mean in 1989. Club operations have lost appropriated funds support and will be forced to manage operations better. Troop support services will continue to concentrate on lowering fat and cholesterol content of menu items, as well as on deployment of computer systems to manage inventory and analyze recipes for nutrient data.

The most important issue facing the U.S. Air Force foodservice system during peacetime is its effort to increase emphasis on customer service, according to Hank Dylla at the Air Force Engineering & Services Center headquarters. "We don't want to treat the troops like a captive audience," says Dylla. "We want to make meal periods more pleasant because many of the enlisted men at the lower ranks don't have the money to buy a meal at a fancy restaurant."

The Air Force continues to promote the use of fresh fruit and salad bars, and wants soldiers to avoid salt, fats and sugar. While healthful alternatives are being accepted, Dylla has noticed a countertrend—increased use of carryout facilities specializing in fast food.

The U.S. Air Force also will continue to implement its automated management-information system by bringing another 30 operations on line.

According to the U.S. Navy Foodservice Systems office, the emphasis in 1989 will be on menu planning. Dietitian Carol Mergen says creative menu planning seminars will focus on creating visually interesting presentations. "Even on an aircraft carrier, if you arrange hot breads, yogurts, cereal, fruits and juices properly, it can look more appealing," says Mergen.

The U.S. Army Troop Support Agency will concentrate on the deployment of its $55 million Army Food Management Information System, which will link all food-management systems to a central command.

The Army will continue to phase out menu items high in calories and cholesterol. The 1989 master menu will promote a dietary program emphasizing food that is rich in complex carbohydrates and fiber. The serving of eggs to order will be decreased to six days a week to help soldiers monitor their fat and cholesterol intake. As an alternative to bacon and sausage, lower-fat protein sources, such as steak biscuits, have been programmed into the master breakfast menu once a week.

Also, a design package for a new family of dining facilities is being developed. The new look will be geared toward what soldiers would see in a civilian cafeteria.

The U.S. Marine Corps will concentrate on modernizing mess halls in 1989 as well. Also, the commandant has mandated more realistic field training.

The Marines are in the preliminary stages of contracting out mess duty. Henderson Hall in Virginia is fully contracted and is working the kinks out of the relationship.

At the various military club systems, operating standards are being developed to increase efficiencies and improve the bottom line.

The Army clubs system is concentrating on service training and consolidating food and beverage purchases to increase quality and cut prices.

The Marine Corps, along with other branches of the service, is developing strategies to compete with the private sector. Surveys are being used to determine current customer attitudes and project future needs of patrons. Programs also are being developed to encourage family business and responsible use of alcohol. *—Jeff Weinstein*

Military foodservice operations continue to promote nutrition.

1989 ANNUAL FORECAST

NURSING HOMES & LIFE CARE

Large national nursing-home chains will back off from expansion. More regional groupings of three to four nursing homes will emerge. Care alternatives such as day care and Meals on Wheels will grow.

Real growth: 2.1%

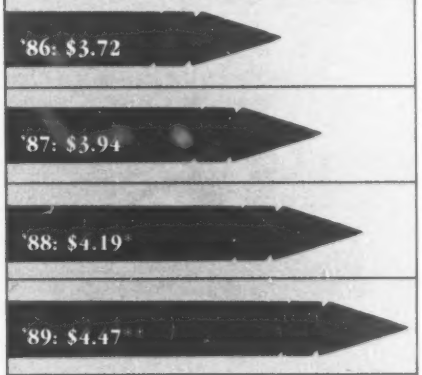
1989 sales: $4.5 billion

1989 beverage alcohol sales: $23 million

Market share: 2.1%

Units: 25,650

Combined food and non-alcoholic beverage sales in billions, 1986-89:



1988 *Restaurants & Institutions*, a Cahners publication.
*preliminary **forecast

■ **NURSING HOMES & LIFE CARE**

Financial woes give rise to a variety of long-term care alternatives for the elderly.

"There is a lot being done for the poor elderly, there is a lot being done for the rich elderly. It's the forgotten people in between we're trying to serve," says Cameron Fraser, CEO of Vintage American Financial Corp. in Newport Beach, Calif. The company, which was established in 1987, is developing personal-care centers, residential facilities that cater to the middle-class elderly who do not need continuous care, but are not totally self-sufficient, either.

Why the need for alternatives? According to the American Healthcare Association in Washington, D.C., only 25% of the elderly population over the age of 65 requires the continuous care offered by nursing homes, and while nursing-home occupancy rates remain in the high 90% range, the financial burdens and labor shortages they face limit their ability to answer the needs of the diverse and growing elderly population.

The shortcomings of Medicare and Medicaid are adding to the problem. The requirements for Medicare reimbursement are difficult to meet and it can take months to collect reimbursement even when requirements are met. A facility must have a "skilled" nursing staff to qualify, and many nursing homes are intermediate-care facilities that do not qualify at all. Only 3% to 4% of the elderly population benefits from Medicare, while 60% is on Medicaid, according to Linda Keegan, director of public relations at the AHA.

"Medicaid reimbursements are simply not covering the cost of operating, and facilities have to borrow on their private pay funds, ideally those funds counted as profit, to make ends meet," Keegan explains. The shortage of skilled labor goes hand in hand with the lack of funds; nursing homes that need to raise salaries to entice or retain employees (and the pool of skilled labor is shrinking) lack the funds to do so. "Medicaid is a prime contributor to our labor problem," says Keegan, "and it is not keeping up with costs."

Of the four bills that do deal with long-term care, and are due for reintroduction to the Congress in 1989, the AHA considers the Public-Private Sector Partnership, sponsored by Sen. George Mitchell (D-Maine), to be the most innovative. It strongly encourages the private insurance sector to offer competitive rates on long-term health-care insurance. However, industry spokespersons agree that any legislation must attempt to change the structure of Medicare requirements so that it becomes the viable financial resource it was meant to be.

Other steps need to be taken as well. "To begin with, what we need is an executive order mandating that no one may introduce nursing-care legislation without a minimum of five years experience in the field," says Jaak Juhkentaal, director of Martha and Mary Nursing Home in Poulsbo, Wash. "We have no distinct leader for our cause, no one who really knows the industry well enough to understand our unique needs. What we do have is legislation that does nothing to improve our situation," he says, referring to the Catastrophic Insurance Law, active Jan. 1, 1989, which deals with short-term Medicare reimbursement requirements, but does not address the long-term picture.

Regardless of government legislation, both the AHA and the American Association of Homes for the Aging expect to see a decline in the number of large national nursing-home chains and the emergence of more single owners of three or four carefully researched and planned nursing homes

Table service and menu variety are on the rise in assisted-living facilities.

For information Sunkist Growers circle 35

The 75- to 84-year group will grow by 4.5 million in the next 15 years.

in a relatively small geographical area (one state or two at most).

"In the past few years, we've seen a shift. Twenty to 50 of the large national nursing-home chains are consolidating, they are backing off from expansion," says Keegan. She projects that the development of small, regional chains will be carefully orchestrated: "There will be very heavy consideration given to the number of private payers in the area."

Strong consideration will be given to the private pay market and private sector involvement in care alternatives, as well. While non-profit centers, including many city and church subsidized operations, accept seniors with limited savings, a good portion of that 75% of seniors who do not need nursing-home care will not qualify because they have some funds to invest in reasonably priced alternatives. Hence, day care, home care, meals on wheels and assisted living, or personal-care centers, many of which are not dependent on Medicaid and Medicare, will show strong growth in the next few years, industry experts say.

Fraser's personal-care centers are an example of this kind of alternative. Fraser developed Vintage American Financial Corp.'s concept with his partner and president of the company, Dr. Mike Hendrickson.

Hendrickson got into the personal-care field when his research revealed a large population of elderly who may need limited assistance in daily living. Sound in mind and in relatively good health, these seniors may not be able to drive, they may need some help dressing or remembering medication, but overall, they are still a dynamic part of our society.

Over a 6- to 10-year period, people in this group tend to become dependent on their families or, in choosing to remain at home, often become depressed. Severe depression, suffered by 50% of this group, can lead to accelerated decline and entry into nursing homes sooner than would be needed if alternatives were available.

One of Vintage's units, Elder Homestead in Minneapolis, features 28 apartments, which clients rent for $900 to $1,300 on a month-to-month lease. In addition to the apartments, the facility features dining rooms and areas for socializing. Meals, housekeeping services and care management services are included in the tab. Aides are available to help residents with a variety of day-to-day tasks, but no licensed medical personnel are on staff and the facility is not reimbursed by Medicaid or Medicare. The clientele has an average annual income of $10,000 to $15,000.

"I think we'll be seeing an increase in assisted-living centers in 1989," says Susan Pettey, director of health policy for the American Association of Homes for the Aging. While life-care centers—those facilities offering everything from residential communities to nursing homes to acute-care hospitals in one setting— will still be an option for the affluent elderly, Pettey says they will not answer the long-term care needs of many of the elderly populace.

The reason for this, cited by Pettey as well as other industry spokespersons, is the high cost of entering life-care centers, sometimes $100,000 to $200,000.

"Those life-care centers that are established are doing fine, some have 8- to 10-year waiting lists," says Juhkentaal. "It is the new ones that are having trouble. Some need high entry fees and then have monthly fees on top of those, just to make ends meet. The problem is that many have failed to analyze the demographics to make sure the local community could support such a facility."

While there is no single solution to caring for the diverse and growing elderly population, the private sector and the government must work together to provide funding and to improve the attitude toward the labor force caring for the elderly, especially in terms of competitive salaries. *—B.G.*

WHAT'S AHEAD IN '89

- More nursing homes and assisted-living centers are opening their foodservice to seniors living in the nearby community.
- Sunday buffets for family and friends and theme dinners are on the rise.
- Assisted-living centers are catering to their clientele with increased room service, catering, private dining and restaurant-style dining rooms.
- Local community organizations like the Kiwanis and Rotary are being invited to hold meetings in the facilities and are encouraged to get involved with residents.
- Meals on Wheels programs will thrive in '89.
- Special socializing areas, like ice cream parlors and small on-premises pubs, are opening in many centers.

1989 ANNUAL FORECAST

TRANSPORTATION

Expected increases in passenger miles and vacations will lead to real growth in the transportation industry in 1989. Airlines will make menus more exciting and healthful to attract customers.

Real growth: 1.5%

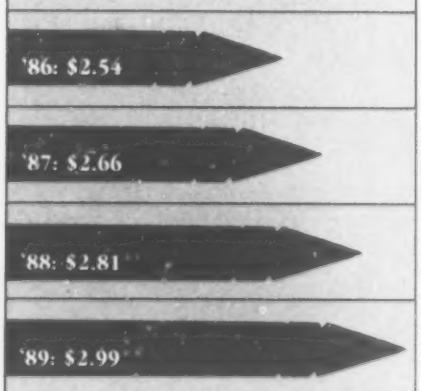
1989 sales: $3 billion

1989 beverage alcohol sales: $493 million

Market share: 1.4%

Units: 350

Combined food and non-alcoholic beverage sales in billions, 1986-89:



1989 *Restaurants & Institutions*, a Cahners publication.
*preliminary **forecast

■ TRANSPORTATION

Outlook for rail foodservice positive; airlines respond to consumer demand.

Travel modes seem to have shifted slightly in 1988. For the first time in this decade, Amtrak reported a substantial increase in ridership, almost 2.5 million, which amounts to a 3% to 5% increase. At the same time, air passenger revenues increased a modest 1.5%, according to the U.S. Department of Commerce.

Amtrak officials are confident that ridership will continue to climb at the rate of 2% to 5% a year through 1992. This consistent rise will put money into the food and beverage pot (about a $6 million increase in 1988), improving rail foodservice substantially.

Improvements in Amtrak menus include more cooking on board, as opposed to the mostly microwave preparation that began when budgets were cut in 1980. Each train now also will have a different cycle so that as one travels across the country, menus do not repeat.

Airlines have been responding to consumer demands for lighter, more healthful and interesting food. Some airlines think the drought will contribute to higher food costs, and predict a shrinking of the quantity and level of airline foodservice. They believe this will result in meal "window" reductions. Thus, instead of breakfast from 7:30 a.m. to 10:00 a.m., the meal will only be served until 9:00 a.m. Labor in airline foodservice may become a bigger problem in 1989, as less qualified people enter this segment of the foodservice industry.

"More flair is coming back into inflight meal service," says Ray Chanaud of Onboard Services Magazine, a magazine for airline, ship and catering foodservice. "There are also more considerations for healthful eating because that is what customers are requesting." He offers two examples: Airlines are hiring dietitians to monitor and help develop meals, and they are running videos to instruct passengers how to exercise in their seats.

American Airlines' contractor, Sky Chefs, has just completed a new program of heart-healthy menus in conjunction with the American Heart Association that will be publicized heavily. The airline is treating healthful menus as a marketing tool. Werner Gerst, director of Menu Service, Design and Training, says passenger surveys have shown that people want lighter menus, and the airline has responded.

United Airlines started a new program in 1988, geared to eliminate boring inflight meal service without raising budgets. The airline instituted a series of meal promotions designed to offer customers more variety, and they were able to execute the program inexpensively by using some packaged products (less labor cost) and entrees with lower food cost (such as pasta instead of beef). The promotions will continue in 1989, beginning in January with an Italian month that was highly successful last year.

While most of the airlines are using food promotions to generate meal excitement, a small segment of the airline industry wants to provide luxury service to capture business clientele. Donald Trump hopes to carve an elite niche in the air, similar to his real estate holdings on the ground. The Trump Shuttle will operate between Boston and New York. The shuttle, a recent purchase from Eastern Airlines, will operate with refurbished planes, including new colors on the outside and fewer, more comfortable seats on the inside. The fares will be so high, however, that the shuttle will appeal only to a select few. ***—Nancy Backas***

Amtrak brings people back to the rails with meal variety and freshness.

ACTION EXPRESS

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